



**State of Delaware
Department of Transportation**

**Financial Statements,
and Independent Auditors' Report**

June 30, 2006 and 2005

**State of Delaware
Department of Transportation**

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis.....	3
Financial Statements	
Balance Sheets	10
Statements of Revenues, Expenses, and Change in Fund Net Assets	12
Statements of Cash Flows	14
Notes to Financial Statements	16
Required Supplementary Information	
Supplementary Information for Governments That Use the Modified Approach for Infrastructure Assets	50
Additional Information	
Schedule of Revenue Bond Coverage.....	53



KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

Delaware Department of Transportation
Dover, Delaware

We have audited the accompanying balance sheet of the State of Delaware Transportation Department (Transportation Department), which is an Enterprise Fund of the State of Delaware, as of the year ended June 30, 2006, and the related statements of revenue, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Transportation Department as of and for the year ended June 30, 2005 were audited by other auditors whose report thereon dated August 18, 2005 (except as to note W, as to which the date is September 14, 2006), expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Transportation Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluation the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Transportation Department and do not purport to, and do not, present fairly the financial position of the State of Delaware, as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with U.S. accounting principles.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of the Transportation Department as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's discussion and analysis and required supplementary information for governments that use the modified approach for infrastructure assets on pages 3 through 9 and 50 through 51, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2006, on our consideration of the Transportation Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The additional information, as listed in the table of contents and presented on page 53, is presented for purposes of additional analysis and is not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or any other form of assurance on the additional information.

KPMG LLP

November 21, 2006

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis

This section of the Delaware Department of Transportation's (the Department) annual financial statements presents our discussion and analysis of the Department's financial performance during the fiscal year ended June 30, 2006.

Background

The mission of the Department is to provide a safe, efficient, and environmentally sensitive transportation network that offers a variety of convenient, cost-effective mobility opportunities for the movement of people and goods. The Department is responsible for the construction and maintenance of the State of Delaware's (the State) roadways, bridges, and public transportation systems, and for the coordination and development of the State's comprehensive, balanced transportation planning and policies.

Financial Highlights

- Total operating revenues surpassed \$379.2 million, a 10.7% increase over fiscal year 2005.
- Total operating expenses were \$448.6 million. The \$37.9 million decrease is primarily due to decreased maintenance, preservation, repairs, professional fees and supplies.
- The Department went to the bond market in November 2005 by issuing \$150 million of new money bonds and \$40 million of the issue paid off the General Obligation Bond Anticipation Note to PNC.
- Total capital assets (net of depreciation) were \$3,595.0 million at June 30, 2006, and net assets were \$2,834.5 million.

Overview of the Financial Statements

The financial section of this annual report consists of four parts: 1) management's discussion and analysis (this section), 2) the basic financial statements, 3) notes to the financial statements, and 4) required supplementary information.

The financial statements provide both long-term and short-term information about the Department's overall financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

The Department's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the statements of revenues, expenses, and change in fund net assets. All assets and liabilities associated with the operation of the Department are included in the balance sheets.

Financial Analysis of the Department

Balance Sheets

The Department's total assets increased \$144.8 million to \$3,920.4 million, and total liabilities increased \$44 million to \$1,085.9 million. Net assets at June 30, 2006 were \$2,834.5 million, a \$100.8 million increase from June 30, 2005.

Department of Transportation's Net Assets
(in millions of dollars)

	<u>2006</u>	<u>2005</u>	<u>Change 2006-2005</u>
Current assets	\$ 244.8	\$ 199.3	45.5
Capital assets	3,595.0	3,492.1	102.9
Other noncurrent assets	<u>80.6</u>	<u>84.2</u>	<u>(3.6)</u>
Total assets	<u>\$3,920.4</u>	<u>\$3,775.6</u>	<u>144.8</u>
Current liabilities	\$ 141.5	\$ 189.9	(48.4)
Noncurrent liabilities	<u>944.4</u>	<u>852.0</u>	<u>92.4</u>
Total liabilities	<u>\$1,085.9</u>	<u>\$1,041.9</u>	<u>44.0</u>
Net assets			
Invested in capital assets, net of debt	\$2,616.9	\$2,530.0	86.9
Restricted	141.6	129.1	12.5
Unrestricted	<u>76.0</u>	<u>74.6</u>	<u>1.4</u>
Total net assets	<u>\$2,834.5</u>	<u>\$2,733.7</u>	<u>100.8</u>

The increase in current assets is primarily attributable to an increase in investments due to the issuance of new revenue bonds and an increase to the trade accounts receivable due to a review of the Department's "J" or third-party receivables. The decrease in

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

current liabilities is attributable to the payment of the \$40 million general obligation bond anticipation note and a decrease in accounts payable. The increase in noncurrent liabilities is again attributed to the bond sale with an increase of bonds payable debt.

Change in Net Assets

The Department's net assets at June 30, 2006 were \$100.8 million higher than at June 30, 2005. The Department's total operating revenues increased \$36.5 million, and total operating expenses decreased \$37.9 million to \$448.6 million.

Change in the Department of Transportation's Net Assets
(in millions of dollars)

	<u>2006</u>	<u>2005</u>	<u>Change 2006-2005</u>
Operating revenues	\$ 379.2	\$ 342.7	36.5
Operating expenses			
Operating expenses	433.2	473.5	(40.3)
Depreciation	<u>15.4</u>	<u>13.0</u>	<u>2.4</u>
Total operating expenses	<u>448.6</u>	<u>486.5</u>	<u>(37.9)</u>
Operating loss	(69.3)	(143.8)	74.5
Nonoperating revenues, net	<u>72.9</u>	<u>53.7</u>	<u>19.2</u>
Loss before transfers	3.6	(90.1)	93.7
State General Fund transfers	<u>97.2</u>	<u>76.4</u>	<u>20.8</u>
Change in fund net assets	100.8	(13.7)	114.5
Total net assets - beginning of year	<u>2,733.7</u>	<u>2,747.4</u>	<u>(13.7)</u>
Total net assets - end of year	<u>\$2,834.5</u>	<u>\$2,733.7</u>	<u>100.8</u>

The October 1, 2005 toll rate increase at I-95 was the main contributor for the operating revenue increase; and the largest contributing factor for the decrease in operating expenses for fiscal year 2006 was the \$32.9 million decrease in maintenance,

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

preservation, and repairs. A large increase of third-party cost share expenditure reimbursements from developers and municipalities was primarily responsible for the decrease.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the Department had invested \$3,699.4 million in capital assets, including roads, bridges, buildings, land, and equipment. Net of accumulated depreciation, the Department's net capital assets at June 30, 2006 totaled \$3,595.0 million. This amount represents a net increase (including additions and net of disposals, and depreciation) of \$102.9 million over June 30, 2005. Contributing to this increase were the I-95 expansion and Riverfront projects.

The Department is using the "Modified Approach" for determining condition assessments on its roads and bridges. The Modified Approach requires that the Department initially set a percentage benchmark for maintaining the infrastructure and report at least every three years on the condition assessments.

The Department of Transportation has changed its policy for road condition maintenance from 75% good or better to 85% fair or better to more effectively reflect our roadway conditions over time. Good road ratings are represented by roads that need no action or preventive maintenance only. Fair road ratings require primarily only preventive maintenance. Poor road ratings indicate that rehabilitation and or reconstruction maintenance is required. This change will continue to allow the Department to maintain the state owned roads indefinitely, and as a result no depreciation is provided on the road system.

In the past few years, cost of maintaining our road system has increased dramatically reflecting the impact of the petroleum industry, the rapid growth in our state, and general construction demands worldwide (i.e., China has been a major consumer recently). The competition for pavement construction workers and fuel prices have caused the prices of our work to essentially double in the past five years. For example, asphalt per ton in 2002 was \$40, today the same ton cost \$70.

These increasing cost are the major driver that has caused us to exceed our preservation and maintenance estimate each of the last 6 years, but still have roads rated as fair increase from 12% to 21% of the total and good decrease from 80% to 69% of the total roadways.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

Further impacting this situation has been the overall financial capacity of the Department. The results of the Governors Task Force indicate that the transportation trust fund is supported by revenues which are inelastic. As a result, without appropriate funding, we are unable to meet the demands of the services and capital improvements by our customers. The result of which has been a comprehensive review of expenditures and revenues. The future focus is placed on ensuring that the department can maintain the current assets with a focus on core business, maximization of federal dollars and state funded programs.

The overall Capital Transportation Program (CTP) is reflective of a reduction in revenues. The FY05 CTP expenditure projections were \$458M, \$500M and \$210M in 2006, 2007 and 2008 respectively, and the current program expenditure projections for the FY08 – FY2013 CTP reflect \$266M in FY06, \$277M in FY07 and \$383M in FY08.

This change in policy will reduce the estimated roadway preservation and maintenance funding for our roadways from \$188M, \$205M and \$87M in 2006, 2007, and 2008, respectively, to \$109M in FY06, \$113M in FY07 with an anticipated increase in FY08 to \$157M in expected authorizations. These projections are reflective of an average spending of 41% of the total capital program on projects which are considered preservation and maintenance. Operating Expenses for Preservation and Maintenance reflect a funding of \$53M in FY06, \$58M FY07 and \$59M in FY08. The bridge preservation program has maintained a steady level of both state and federal funding which has not impacted the overall rating of the infrastructure.

The focus of available funding has been placed on our major roads to maintain them at the highest levels. Our Interstate System roadways have seen improvement in the past few years and the Arterial and Collector roadways had modest improvement in 2006. Local roads have accounted for the overall movement of roads from good to fair with good roads down 10% and fair roads up 7% over the last 6 years. All of our roads have a reasonably flat line in the condition of poor rating hovering at 10% or less for the last six years. The department is working to protect our critical assets during this challenging financial period.

We are budgeting in fiscal 2008 to direct a substantial increase in this asset maintenance category and we expect our road system to continue to serve our highway users adequately in the future. The current Secretary, Ms. Carolann Wicks has identified the Paving & Rehabilitation Program as a critical part of our Core Business needs. With this acknowledgement, more resources have been proposed for this program in the 6-year Capital Transportation Plan (FY2008 – F2013).

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR), which is based on the Federal Highway Administration's (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 4 for substandard bridges to 9 for bridges in perfect condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges are taken as those with ratings of 6 to 9, with 5 being assessed a fair rating.

The Department performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every year, and bridge condition assessments are conducted, for the most part, every two years.

Of the Department's 1,374 bridges that were rated in 2005, 1,048 or 76.3% received a good or better BCR rating (a 1.8% increase over 2004), 17.7% were rated fair, and 6% received a substandard rating. Of the 7,241,809 square feet of bridge deck that was rated, 94% or 6,808,227 square feet received an OPC condition rating of good or better (a 1.1% increase over 2004), 5.4% received a fair rating, and .6% received a substandard deck rating.

In 2005, 4,453 center-line miles were rated; 89.5% received a fair or better OPC rating (a 2.1% decrease from 2004) and 10.5% received a poor rating.

Debt Administration

Transportation Systems Revenue Bonds are issued with the approval of the State and the State's Bond Issuing Officers (the Governor, the Secretary of Finance, the Secretary of State, and the State Treasurer) to finance improvements to the State's transportation systems. Approval by the General Assembly of the State is not required for the Delaware Transportation Authority (the Authority) to issue bonds to refund any of its bonds provided that a present value debt service savings is achieved in such refunding. The sales must comply with the rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission.

**State of Delaware
Department of Transportation**

Management's Discussion and Analysis (Continued)

At June 30, 2006, the Authority had \$953.3 million in revenue bonds outstanding, a 10.3% increase over June 30, 2005. During the past year, \$150 million of new money bonds were issued. Of the ten outstanding bond issues, all are rated AAA by S&P and Aaa by Moody's.

Next Year's Budget

The Department's fiscal year 2007 Operating Annual Budget adopted by the General Assembly in June 2006 totals \$338.9 million and the fiscal year 2007 Capital Improvements Act totals \$176.3 million in State authorized funds. The Capital Improvements Act authorizes funding of the following improvements: \$111.1 million of Road System, \$23.2 million of Grants and Allocations, \$5 million of Transit System, and \$37 million for Support System. The Capital Improvement Act authorizes an additional \$337.4 million in federal funding. The spending of these capital authorizations will occur over several years. The capital spending forecast for fiscal year 2007 is \$549.8 million, inclusive of \$286.9 and \$262.9 million in state and federal respectively. This year's authorizations include a \$60 million transfer from the Office of Management and Budget (OMB) to support DelDOT business of which \$10 million constitutes a payment on behalf of the Diamond State Port Corporation for the loan agreement dated November 30, 2001.

Contacting the Department's Financial Management

This financial report is designed to provide bondholders, patrons, and other interested parties with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Delaware Department of Transportation, Finance Unit, P.O. Box 778, Dover, DE 19903.

**State of Delaware
Department of Transportation**

Balance Sheets

**June 30, 2006 and 2005
See Independent Auditors' Report**

	<u>2006</u>	<u>2005</u> <u>(Restated)</u>
CURRENT ASSETS		
Cash and cash equivalents		
Unrestricted	\$ 36,633,706	\$ 22,888,919
Restricted	2,001,277	2,122,681
Investments - at fair value		
Unrestricted	69,527,635	58,404,512
Restricted	95,785,922	84,444,620
Accrued interest receivable	1,294,930	800,000
Accounts receivable		
Trade	13,360,708	7,512,949
Federal grant	9,768,035	8,114,202
Loan receivable	1,152,692	1,108,910
Inventory	13,089,356	12,656,652
Escrow insurance deposits	1,933,042	1,156,460
Prepaid expenses	239,370	77,051
	<hr/>	<hr/>
Total current assets	244,786,673	199,286,956
NONCURRENT ASSETS		
Capital assets, not depreciable		
Land	211,272,425	164,703,227
Infrastructure	3,255,998,018	3,201,817,266
Construction in progress	15,311,430	392,389
Capital assets, depreciable		
Buildings and improvements	54,857,775	60,820,546
Fixtures and equipment	161,943,809	158,778,619
	<hr/>	<hr/>
	3,699,383,457	3,586,512,047
Less: accumulated depreciation	104,353,659	94,362,652
	<hr/>	<hr/>
Capital assets	3,595,029,798	3,492,149,395
Investments - at fair value		
Unrestricted	666,094	6,225,331
Restricted	44,495,196	43,022,091
Accrued interest receivable	697,673	591,895
Loans receivable	34,071,992	33,876,042
Prepaid pension	688,884	482,356
	<hr/>	<hr/>
Total noncurrent assets	3,675,649,637	3,576,347,110
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 3,920,436,310</u>	<u>\$ 3,775,634,066</u>

See notes to financial statements.

**State of Delaware
Department of Transportation**

Balance Sheets

**June 30, 2006 and 2005
See Independent Auditors' Report**

	<u>2006</u>	<u>2005</u> <u>(Restated)</u>
CURRENT LIABILITIES		
Accounts payable and other accrued expenses	\$ 27,781,989	\$ 41,013,047
Accrued payroll	7,794,801	6,786,864
Compensated absences payable	3,802,292	4,465,934
Escrow deposit	1,937,148	2,005,946
Claims and judgments	2,355,513	2,321,575
Deferred revenue	5,040,226	6,366,419
Note payable	-	40,000,000
General obligation bonds payable	812,259	582,693
Revenue bonds payable	61,370,000	58,445,000
Bond issue premium	6,814,934	6,713,456
Interest payable	23,828,878	21,176,509
	<hr/>	<hr/>
Total current liabilities	141,538,040	189,877,443
NONCURRENT LIABILITIES		
Compensated absences - net of current portion	10,672,526	7,828,074
Claims and judgments - net of current portion	14,334,276	13,662,088
General obligation bonds payable - net of current portion	3,435,812	4,248,071
Revenue bonds payable - net of current portion	891,895,000	803,265,000
Bond issue premium - net of accumulated amortization and current portion	24,079,921	23,069,069
	<hr/>	<hr/>
Total noncurrent liabilities	944,417,535	852,072,302
	<hr/>	<hr/>
Total liabilities	1,085,955,575	1,041,949,745
NET ASSETS		
Invested in capital assets - net of related debt	2,616,901,611	2,529,997,173
Restricted	141,547,053	129,113,136
Unrestricted	76,032,071	74,574,012
	<hr/>	<hr/>
Total net assets	2,834,480,735	2,733,684,321
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,920,436,310</u></u>	<u><u>\$ 3,775,634,066</u></u>

State of Delaware
Department of Transportation
Statements of Revenues, Expenses, and
Change in Fund Net Assets

June 30, 2006 and 2005
See Independent Auditors' Report

	<u>2006</u>	<u>2005</u> (Restated)
OPERATING REVENUES		
Pledged revenue		
Turnpike revenues	\$ 87,696,331	\$ 60,703,200
Motor vehicle and related revenue	<u>239,129,928</u>	<u>234,097,331</u>
Total pledged revenue	326,826,259	294,800,531
Toll revenue - Delaware SR-1	31,524,365	30,161,375
Passenger fares	9,991,912	9,323,392
E-ZPass expense reimbursement	366,419	2,665,572
Miscellaneous revenue	<u>10,537,654</u>	<u>5,792,014</u>
Total operating revenues	379,246,609	342,742,884
OPERATING EXPENSES		
Maintenance, preservation, and repairs	125,161,593	158,039,412
Occupancy expenses	13,571,268	14,630,322
Office expense	7,658,600	8,301,607
Payroll expense	121,393,974	112,227,556
Professional fees	103,979,336	119,335,674
Supplies and other	15,852,505	22,995,227
Vehicle operations	45,651,395	37,974,451
Depreciation	<u>15,359,458</u>	<u>13,036,176</u>
Total operating expenses	<u>448,628,129</u>	<u>486,540,425</u>
OPERATING LOSS	(69,381,520)	(143,797,541)

Continued...

State of Delaware
Department of Transportation
Statements of Revenues, Expenses, and
Change in Fund Net Assets (Continued)

June 30, 2006 and 2005
See Independent Auditors' Report

	<u>2006</u>	<u>2005</u> <u>(Restated)</u>
NONOPERATING REVENUES (EXPENSES)		
Pledged revenue - income from investments (net of fees)	\$ 10,523,310	\$ 6,019,636
Income from investments (net of fees)	885,023	231,203
Net increase (decrease) in the fair value of investments	(954,254)	156,843
Federal grant revenue	107,462,277	106,797,360
Grant expenses	(3,417,894)	(408,309)
Transfers of land to DNREC	-	(2,348,913)
Transfers of land to Department of Agriculture	-	(19,324,584)
Gain (loss) on asset disposal	(4,211,450)	561,002
Interest expense	<u>(37,346,668)</u>	<u>(37,958,755)</u>
Excess of nonoperating revenues over expenses	<u>72,940,344</u>	<u>53,725,483</u>
INCOME (LOSS) BEFORE STATE GENERAL FUND TRANSFERS	3,558,824	(90,072,058)
STATE GENERAL FUND TRANSFERS	<u>97,237,590</u>	<u>76,342,530</u>
CHANGE IN FUND NET ASSETS	<u>100,796,414</u>	<u>(13,729,528)</u>
TOTAL FUND NET ASSETS - BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	2,733,684,321	2,733,317,302
PRIOR PERIOD ADJUSTMENT	<u>-</u>	<u>14,096,547</u>
TOTAL FUND NET ASSETS - BEGINNING OF YEAR, AS RESTATED	<u>2,733,684,321</u>	<u>2,747,413,849</u>
TOTAL FUND NET ASSETS - END OF YEAR	<u><u>\$ 2,834,480,735</u></u>	<u><u>\$ 2,733,684,321</u></u>

See notes to financial statements.

**State of Delaware
Department of Transportation**

Statements of Cash Flows

**June 30, 2006 and 2005
See Independent Auditors' Report**

	<u>2006</u>	<u>2005</u> <u>(Restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating receipts	\$ 369,955,229	\$ 335,281,946
Payments to suppliers and employees	(441,119,692)	(470,061,435)
Insurance claims paid	(2,355,513)	(2,711,371)
Other receipts	<u>2,117,428</u>	<u>1,470,120</u>
Net cash used in operating activities	(71,402,548)	(136,020,740)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from State General Fund	<u>97,237,590</u>	<u>76,342,530</u>
Net cash provided by noncapital financing activities	97,237,590	76,342,530
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Payments of revenue bond principal	(58,445,000)	(53,920,000)
Payment to escrow agent for refunding of bonds	-	(67,425,000)
Proceeds from revenue bond sale	150,000,000	167,550,000
Payments of general obligation bond principal	(582,693)	(351,964)
Proceeds from issuance of note	-	40,000,000
Payment of note principal	(40,000,000)	-
Premium from bond sale	8,417,842	9,223,338
Proceeds from capital grants	102,390,550	108,740,871
Acquisition of capital assets	(124,080,093)	(139,771,727)
Proceeds from sale of equipment	1,628,782	3,151,668
Payments of interest	<u>(41,999,811)</u>	<u>(45,843,499)</u>
Net cash provided by (used in) capital and related financing activities	(2,670,423)	21,353,687
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	1,640,027	41,192,327
Purchase of investments	(20,972,574)	(4,844,885)
Repayment on loan receivable	1,108,909	-
Escrow insurance deposits	(776,582)	(1,156,460)
Interest received	<u>9,458,984</u>	<u>5,128,315</u>
Net cash provided by (used in) investing activities	<u>(9,541,236)</u>	<u>40,319,297</u>
Net increase in cash and cash equivalents	13,623,383	1,994,774

Continued...

**State of Delaware
Department of Transportation**

Statements of Cash Flows (Continued)

**June 30, 2006 and 2005
See Independent Auditors' Report**

	<u>2006</u>	<u>2005</u> <u>(Restated)</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	\$ 25,011,600	\$ 23,016,826
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 38,634,983</u>	<u>\$ 25,011,600</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Net operating loss	\$ (69,381,520)	\$ (143,797,541)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation	15,359,458	13,036,176
Changes in assets and liabilities		
Increase in accounts receivable	(5,847,759)	(3,325,246)
Increase in inventory	(432,704)	(2,199,340)
Increase in prepaid expenses	(162,319)	(5,146)
Increase in prepaid pension	(206,528)	-
Decrease in accounts payable	(13,231,058)	(1,850,719)
Increase in accrued payroll and related expenses	3,188,747	3,181,217
Decrease in deferred revenue	(1,326,193)	(2,665,572)
Increase in other accrued expenses	<u>637,328</u>	<u>1,605,431</u>
Net cash used in operating activities	<u>\$ (71,402,548)</u>	<u>\$ (136,020,740)</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest capitalized on Diamond State Port Corporation loan	<u>\$ 1,348,641</u>	<u>\$ 1,911,372</u>
Transfers of land to other State agencies	<u>\$ -</u>	<u>\$ 21,673,497</u>
Loan receivable from CSX settlement agreement	<u>\$ -</u>	<u>\$ 6,000,000</u>

See notes to financial statements.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements
June 30, 2006**

See Independent Auditors' Report

Note A - Organization

The Delaware Department of Transportation (the Department) is an agency of the State of Delaware (the State). The Department has the overall responsibility for coordinating and developing comprehensive, balanced transportation planning and policies for the State. In addition, the Department has overall responsibility for maintenance and operation of roadways and bridges which fall under its jurisdiction. To assist the Department in their mission, the State and the Department created the Delaware Transportation Authority (the Authority), which includes the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC).

The Trust Fund was created by the State, within the Authority, under the Transportation Trust Fund Act of 1987 (the TTF Act). The underlying purpose of the TTF Act and the Trust Fund is to address the growing urgency to provide additional means to finance the maintenance and development of the integrated highway, air, and water transportation system in the State for the economic benefit of the State and for the welfare and safety of the users of the transportation system. The primary funding of the Trust Fund comes from motor fuel taxes, motor vehicle document fees, motor vehicle registration fees, and other transportation related fees, which are imposed and collected by the State and transferred to the Trust Fund. The State has irrevocably pledged, assigned, and continuously appropriated to the Trust Fund these taxes and fees. The other major sources of revenue for the Trust Fund are the Delaware Turnpike and the Delaware SR-1 Toll Roads, both of which the Authority owns and operates. The Authority may apply Trust Fund revenue for transportation projects, subject to the approval of the State, and may pledge any or all of this revenue to secure financing for these projects.

The TTF Act also granted the Authority the power to issue bonds payable from and secured by the revenues pledged and assigned to the Trust Fund.

The Trust Agreements in effect at June 30, 2006 and 2005 are the Motor Fuel Tax Revenue Bond Trust Agreement (the Motor Fuel Tax Agreement), dated September 1, 1981, as supplemented, and the Transportation Trust Fund Agreement (the Trust Agreement), dated August 1, 1988, as supplemented.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note A - Organization (Continued)

The Trust Agreement is a bond indenture, intended to ensure payment to bond holders through assets and revenues pledged to the Trust Fund. Pledged revenues fund certain accounts created under Section 4.02 of the Trust Agreement and, to the extent those revenues are not needed for that purpose, they are deposited, lien-free, to the Trust Fund. Surplus pledged revenues and nonpledged revenues of the Trust Fund may be used to fund the operations of the Department.

The provisions of the Motor Fuel Tax Agreement and the Trust Agreement govern the disposition of revenues and other income and prescribe certain accounting practices, including the conditions for transfer of monies among the various funds and accounts held by the Authority or the Trustee and the use of such funds.

Pursuant to Title 2 of the Delaware Code, Sections 1304(a) and 1307(a) as enacted by 69 Delaware Law Chapter 435, DTC was created in fiscal year 1995 as a subsidiary public corporation of the Authority. DTC is authorized to operate the public transportation system within the State.

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting

The Department operates as an enterprise fund. The Department's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note B - Summary of Significant Accounting Policies (Continued)

2. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less.

Included in unrestricted cash at June 30, 2006 and 2005 was \$3,525,978 and \$3,501,974, respectively, which will be utilized to fund the remaining unpaid loss contingency insurance liability (see Note R).

The Department maintains cash escrow accounts for administrative purposes and has classified these cash balances as restricted. An offsetting liability is recorded in the accompanying balance sheets.

3. Allowance for Doubtful Accounts

Accounts receivable are expected to be collectible at June 30, 2006 and 2005, and accordingly, a provision for uncollectible accounts has not been established.

4. Inventory

Inventory is accounted for at the lower of cost or market. Cost is determined using the weighted average method.

5. Investments

Investments are recorded at their fair value. Investments at June 30, 2006 and 2005 consisted of United States Government Obligations and Commercial Paper classified as "Qualified Investments" by the Trust Agreement.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note B - Summary of Significant Accounting Policies (Continued)

6. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. Financial Accounting Standards Board (FASB) Pronouncements

The Department has elected not to apply FASB pronouncements issued after November 30, 1989.

8. Capital Assets

Capital assets, which include land, buildings, improvements, fixtures, equipment, and infrastructure assets (such as roads and bridges, which are normally immovable and of value only to the State), are reported in the enterprise fund financial statements.

Capital assets are defined by the State as assets with an initial individual cost of more than \$25,000 at the date of acquisition and an estimated useful life in excess of one year. It is the policy of the Department to capitalize all buildings, land, and land improvements, regardless of cost, and to capitalize infrastructure when the cost of individual items or projects exceeds \$1,000,000. Such assets are recorded at historical cost, or estimated historical cost, if original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the time of the donation. Buildings, improvements, fixtures, and equipment are depreciated on a straight-line basis.

Capital assets are defined by DTC as all assets purchased with State and federal grant money as well as any asset with a cost greater than \$5,000 purchased with operating money.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note B - Summary of Significant Accounting Policies (Continued)

8. Capital Assets (Continued)

For assets not part of infrastructure, the costs of normal preservation, maintenance, and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

For infrastructure, the State uses the "modified approach" to account for roads and bridges, as provided by Governmental Accounting Standards Board (GASB) No. 34. Under this process, the Department does not record depreciation expense nor are amounts expended in connection with improvements to these assets capitalized, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the Department to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the Department, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels.

The Department maintains two asset management systems, one for the roads and one for the bridges. In addition, the Department completes condition assessments on its roads every year and on its bridges at least every two years.

Buildings, improvements, fixtures, and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10 - 40
Fixtures and equipment	3 - 12

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note B - Summary of Significant Accounting Policies (Continued)

9. Compensated Absences

Compensated absences are absences for which Department employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the Department and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the Department and its employees are accounted for in the period in which such services are rendered or such events take place.

10. Bond Issue Premiums/Discounts

Amortization of bond issue premiums/discounts is provided using the effective interest method over the life of the bond issue. Amortization taken in 2006 and 2005 was \$7,305,512 and \$7,418,587, respectively.

11. Revenues and Expenses

The Department defines nonoperating revenues as federal and State grant revenue, operating subsidies, and investment income. All other revenues are derived from normal operations of the Department. Nonoperating expenses are defined as grant expenses and interest expense. All other expenses are a result of normal operations.

Note C - Cash and Investments

Cash Management Policy and Investment Guidelines

The policy for the investment of Department funds is the responsibility of the Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the Department. Under

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note C - Cash and Investments (Continued)

Cash Management Policy and Investment Guidelines (Continued)

the Board's *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy), all deposits and investments of the Department are categorized as "Authority Accounts." Investments of the Department are further restricted to "Qualified Investments" as defined in the Trust Fund Agreement.

As defined by the Policy, the investment objectives of Authority Accounts include maximizing yield and maintaining the safety of principal. At June 30, 2006 and 2005, investments of the Department are primarily in U.S. Government securities, U.S. Government agency securities, and Commercial Paper rated in the highest rating category by either Moody's or Standard & Poor's. All of these meet the objectives defined by the Policy and are Qualified Investments in accordance with the Trust Fund Agreement.

The Policy is available on the Internet at www.state.de.us/treasure.

Custodial Credit Risk

1. Deposits

The carrying amounts of the Department's deposits at June 30, 2006 and 2005 were \$38,634,983 and \$25,011,600, respectively, and the bank balances were \$37,922,509 and \$34,657,716, respectively. The differences between bank balances and carrying amounts resulted from outstanding checks and deposits in transit. Of the bank balances, \$23,022,848 and \$19,175,606, respectively, were covered by federal depository insurance or by collateral held by the Department's agent, in the Department's name, at June 30, 2006 and 2005. The remaining bank balances of \$14,899,661 and \$15,482,110, respectively, were neither insured nor collateralized at June 30, 2006 and 2005.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note C - Cash and Investments (Continued)

Custodial Credit Risk (Continued)

1. Deposits (Continued)

As of June 30 2006 and 2005, the Department had cash and cash equivalents of \$6,800,721 and \$4,577,067, respectively, held by the State of Delaware Treasurer's Office in Dover, Delaware. The Treasurer's Office controls these funds and any investment decisions are made by the State Treasurer's Office. The deposits held by the State investment pool and internal investment pool are specifically identified for the Department, but the credit risk cannot be categorized for these deposits. Credit risk for such deposits depends on the investment decisions made by the State Treasurer's Office.

2. Investments

Investments of the Department are stated at fair value. At June 30, 2006 and 2005, all of the Department's investments were insured or registered, with securities held by the Department or its agent in the Department's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the value of an investment. The Policy provides that maximum maturity for investments in Authority Accounts, at the time of purchase, shall not exceed ten years, except when it is prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note C - Cash and Investments (Continued)

Interest Rate Risk (Continued)

The following tables present a listing of directly held investments and related maturities.

<u>June 30, 2006</u>				
<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. Government Securities	\$ 5,835,150	\$ 1,279,266	\$ 4,555,884	\$ -
U.S. Government Agency Securities	146,110,004	105,504,598	40,605,406	-
Commercial Paper	<u>58,529,693</u>	<u>58,529,693</u>	<u>-</u>	<u>-</u>
	<u>\$210,474,847</u>	<u>\$165,313,557</u>	<u>\$45,161,290</u>	<u>\$ -</u>
 <u>June 30, 2005</u>				
<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
U.S. Government Securities	\$ 5,902,563	\$ 355,345	\$ 5,547,218	\$ -
U.S. Government Agency Securities	137,059,208	93,359,004	42,739,960	960,244
Commercial Paper	<u>49,134,783</u>	<u>49,134,783</u>	<u>-</u>	<u>-</u>
	<u>\$192,096,554</u>	<u>\$142,849,132</u>	<u>\$48,287,178</u>	<u>\$960,244</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Department follows the Policy and the Trust Fund Agreement by investing only in authorized securities. The Department's general investment policy for credit risk is to apply the prudent-person rule. Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note C - Cash and Investments (Continued)

Credit Risk (Continued)

In addition, the Trust Fund Agreement limits investments in Commercial Paper to those with a Moody's rating of P-1 or a Standard & Poor's rating of A-1 for short-term investments. The Department had investments in Commercial Paper of \$58,529,693 and \$49,134,783 at June 30, 2006 and 2005, respectively. All Commercial Paper held was short-term and rated in accordance with the Trust Agreement. The investments in U.S. Government Agency Securities all carried the highest rating by Moody's and Standard & Poor's. All remaining investments were in U.S. Government Securities, which carry no credit risk.

Investments in derivatives are prohibited by the Policy.

Investments in Excess of 5%

The following issuers have investments at fair value in excess of 5% of the investment portfolio at June 30, 2006:

Federal Home Loan Mortgage Corporation	\$68,692,166	33%
Federal National Mortgage Association	77,417,837	37%
General Electric Capital Corporation	10,930,079	5%
Societe Generale NA	10,610,458	5%

Investment Commitments

The Department has made no investment commitments as of June 30, 2006.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note D - Accounts and Loans Receivable

Accounts and loans receivable at June 30, 2006 and 2005 are detailed as follows:

	<u>2006</u>	<u>2005</u>
Receivables		
Interest	\$ 1,992,603	\$ 1,391,895
Trade	13,360,708	7,512,949
Federal Grant	9,768,035	8,114,202
Loans	<u>35,224,684</u>	<u>34,984,952</u>
 Total receivables	 60,346,030	 52,003,998
 Allowance for doubtful accounts	 <u>-</u>	 <u>-</u>
 Total receivables - net of allowance	 <u>\$60,346,030</u>	 <u>\$52,003,998</u>
 Amounts not scheduled for collection during the subsequent year	 <u>\$34,769,665</u>	 <u>\$34,467,937</u>

During fiscal year 2002, the Trust Fund loaned \$27,500,000 to Diamond State Port Corporation. The funds were loaned at an interest rate of 4.6%. Originally, the loan was to be repaid in 40 semi-annual payments of \$1,058,920 with the final payment to be made in January 2023. The loan was subsequently restructured effective July 1, 2004. Unpaid interest through January 1, 2005, in the amount of \$1,911,372, was capitalized into the loan balance and the payments were deferred until July 1, 2005. Effective July 1, 2005, the loan was again restructured. Additional unpaid interest through January 1, 2006, in the amount of \$1,386,641, was capitalized into the loan balance and the payments were deferred until July 1, 2006. At June 30, 2006, the loan is to be repaid in 40 semi-annual payments of \$1,168,031, commencing on July 1, 2006, with the final payment to be made January 1, 2026. The interest rate on the restructured loan remains at 4.6%. At June 30, 2006 and 2005, the outstanding loan balance was \$30,333,593 and \$28,984,952, respectively (see Note V).

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note D - Accounts and Loans Receivable (Continued)

During fiscal year 2005, the Department reached a settlement agreement with CSX Transportation, Inc., (CSX) in which CSX agreed to fund a portion of the costs of reconstruction of certain railway bridges in the City of Wilmington, Delaware. The settlement was for \$6,000,000, and has been recorded as a loan receivable and deferred revenue in the accompanying balance sheets. The loan is payable in 10 semi-annual installments of \$666,387, including interest at 3.91%. Revenue is recorded as actual expenses are incurred. Revenue recorded for the year ended June 30, 2006 was \$959,774. There was no revenue recorded for the year ended June 30, 2005. The Department has requested federal assistance with these projects. To the extent such federal assistance is received, the loan balance may be reduced in future periods by 75% of the total federal assistance received, in accordance with the settlement agreement.

Note E - Note Payable

On May 6, 2005, the Trust Fund issued a \$40,000,000 note to PNC Bank, Delaware. Proceeds of the note were for the purpose of providing interim financing for the Department's capital program in anticipation of the issuance of long-term bonds to provide permanent financing for the capital program. Interest on the note was 2.92% for the period from May 6, 2005 to (but excluding) August 3, 2005, and was adjusted each business day thereafter to a variable rate based on LIBOR [(LIBOR + 25 basis points) (.65 + 68 basis points)]. Interest was calculated on the basis of a 360-day year comprised of twelve 30-day months. The note, together with all interest accrued, was paid on December 1, 2005. The balance outstanding on the note at June 30, 2005 was \$40,000,000.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note F - Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments and Reclassifications</u>	<u>Ending Balance</u>
Capital assets not being depreciated					
Land	\$ 164,703,227	\$ 46,569,198	\$ -	\$ -	\$ 211,272,425
Infrastructure	3,201,817,266	54,180,752	-	-	3,255,998,018
Construction in progress	<u>392,389</u>	<u>14,919,041</u>	<u>-</u>	<u>-</u>	<u>15,311,430</u>
Total capital assets not being depreciated	3,366,912,882	115,668,991	-	-	3,482,581,873
Capital assets being depreciated					
Buildings and improvements	60,820,546	466,870	(6,429,641)	-	54,857,775
Fixtures and equipment	<u>158,778,619</u>	<u>7,952,643</u>	<u>(4,787,453)</u>	<u>-</u>	<u>161,943,809</u>
Total capital assets being depreciated	219,599,165	8,419,513	(11,217,094)	-	216,801,584
Less: accumulated depreciation for					
Buildings and improvements	18,017,641	1,825,953	(1,887,390)	-	17,956,204
Fixtures and equipment	<u>76,345,011</u>	<u>14,231,808</u>	<u>(4,179,364)</u>	<u>-</u>	<u>86,397,455</u>
Total accumulated depreciation	<u>94,362,652</u>	<u>16,057,761</u>	<u>(6,066,754)</u>	<u>-</u>	<u>104,353,659</u>
Total capital assets being depreciated, net	<u>125,236,513</u>	<u>(7,638,248)</u>	<u>(5,150,340)</u>	<u>-</u>	<u>112,447,925</u>
Capital assets, net	<u>\$3,492,149,395</u>	<u>\$108,030,743</u>	<u>\$ (5,150,340)</u>	<u>\$ -</u>	<u>\$3,595,029,798</u>

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note F - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments and Reclassifications</u>	<u>Ending Balance</u>
Capital assets not being depreciated					
Land	\$ 113,672,853	\$ 74,678,871	\$(23,648,497)	\$ -	\$ 164,703,227
Infrastructure	3,157,071,592	44,745,674	-	-	3,201,817,266
Construction in progress	<u>1,866,892</u>	<u>392,389</u>	<u>(1,866,892)</u>	-	<u>392,389</u>
Total capital assets not being depreciated	3,272,611,337	119,816,934	(25,515,389)	-	3,366,912,882
Capital assets being depreciated					
Buildings and improvements	51,548,551	9,271,995	-	-	60,820,546
Fixtures and equipment	<u>149,830,416</u>	<u>18,614,069</u>	<u>(9,665,866)</u>	-	<u>158,778,619</u>
Total capital assets being depreciated	201,378,967	27,886,064	(9,665,866)	-	219,599,165
Less: accumulated depreciation for					
Buildings and improvements	16,420,058	1,597,583	-	-	18,017,641
Fixtures and equipment	<u>67,892,240</u>	<u>17,444,899</u>	<u>(8,992,128)</u>	-	<u>76,345,011</u>
Total accumulated depreciation	<u>84,312,298</u>	<u>19,042,482</u>	<u>(8,992,128)</u>	-	<u>94,362,652</u>
Total capital assets being depreciated, net	<u>117,066,669</u>	<u>8,843,582</u>	<u>(673,738)</u>	-	<u>125,236,513</u>
Capital assets, net	<u>\$3,389,678,006</u>	<u>\$128,660,516</u>	<u>\$(26,189,127)</u>	<u>\$ -</u>	<u>\$3,492,149,395</u>

Depreciation expense for fiscal years 2006 and 2005 was \$15,359,458 and \$13,036,176, respectively.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note G - Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$861,710,000	\$150,000,000	\$(58,445,000)	\$953,265,000	\$61,370,000
General obligation bonds	4,830,764	-	(582,693)	4,248,071	812,259
Bond issue premium, net of accumulated amortization	29,782,525	8,417,842	(7,305,512)	30,894,855	6,814,934
Claims and judgments	15,983,663	2,967,973	(2,261,847)	16,689,789	2,355,513
Compensated absences	<u>12,294,008</u>	<u>2,180,810</u>	<u>-</u>	<u>14,474,818</u>	<u>3,802,292</u>
Long-term liabilities	<u>\$924,600,960</u>	<u>\$163,566,625</u>	<u>\$(68,595,052)</u>	<u>\$1,019,572,533</u>	<u>\$75,154,998</u>

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
Revenue bonds	\$815,505,000	\$167,550,000	\$(121,345,000)	\$861,710,000	\$58,445,000
General obligation bonds	5,182,728	-	(351,964)	4,830,764	582,693
Bond issue premium, net of accumulated amortization	29,382,368	9,223,338	(8,823,181)	29,782,525	6,713,456
Claims and judgments	14,814,753	4,884,495	(3,715,585)	15,983,663	2,321,575
Compensated absences	<u>11,091,300</u>	<u>1,202,708</u>	<u>-</u>	<u>12,294,008</u>	<u>4,465,934</u>
Long-term liabilities	<u>\$875,976,149</u>	<u>\$182,860,541</u>	<u>\$(134,235,730)</u>	<u>\$924,600,960</u>	<u>\$72,528,658</u>

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note H - General Obligation Bonds Outstanding

General obligation bonds outstanding at June 30, 2006 and 2005 are detailed as follows:

<u>Sale #</u>	<u>Description and Interest Rates</u>	<u>Maturity Date (Fiscal Year)</u>	<u>Balance Outstanding</u>	
			<u>June 30, 2006</u>	<u>June 30, 2005</u>
194	GO 2005B, 5.00%	2024	\$1,018,125	\$1,103,836
191	GO + Refunding 2004A, 3.00-6.00%	2024	120,131	135,148
188	GO Refunding 2003B, 4.00-5.00%	2012	2,609,865	2,898,980
185	GO + Refunding 2002A, 4.00-5.25%	2023	369,950	422,800
177	GO 1997A, 5.00%	2007	<u>130,000</u>	<u>270,000</u>
	Totals		4,248,071	4,830,764
	Less: current portion		<u>812,259</u>	<u>582,693</u>
	Long-term portion		<u>\$3,435,812</u>	<u>\$4,248,071</u>

The general obligation bonds are direct obligations of the State of Delaware and are secured by the full faith and credit of the State. Only that portion of the bonds attributable to the Department has been reflected in these financial statements.

The annual requirement to amortize all general obligation bonds payable as of June 30, 2006 was as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2007	\$ 812,259	\$189,564	\$1,001,823
2008	599,955	152,630	752,585
2009	676,105	120,200	796,305
2010	655,588	86,522	742,110
2011	663,331	56,194	719,525
2012 - 2015	<u>840,833</u>	<u>62,787</u>	<u>903,620</u>
	<u>\$4,248,071</u>	<u>\$667,897</u>	<u>\$4,915,968</u>

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note I - Revenue Bonds Outstanding

Revenue bonds outstanding at June 30, 2006 and 2005 are detailed as follows:

Date of Issue/Maturity	Amount of Original Issue	Description and Interest Rates	Balance Outstanding	
			June 30, 2006	June 30, 2005
SENIOR BONDS				
1997/2017	\$120,640,000	Transportation System Senior Revenue Bonds, 1997 Series, 5.00-6.00%	\$ 49,930,000	\$ 60,090,000
1998/2016	60,560,000	Transportation System Senior Revenue Bonds, 1998 Series, 4.25-5.50%	52,190,000	52,385,000
2000/2020	83,995,000	Transportation System Senior Revenue Bonds, 2000 Series, 5.50%	17,720,000	20,770,000
2001/2021	85,000,000	Transportation System Senior Revenue Bonds, 2001 Series, 4.50-5.00%	50,795,000	53,815,000
2002/2008	43,015,000	Transportation System Senior Revenue Bonds, 2002 Series, 5.00%	27,765,000	39,905,000
2002/2022	173,680,000	Transportation System Senior Revenue Bonds, 2002 Series B, 4.00-5.25%	146,615,000	153,100,000
2003/2023	277,210,000	Transportation System Senior Revenue Bonds, 2003 Series, 4.50-5.00%	247,685,000	256,575,000
2004/2024	167,550,000	Transportation System Senior Revenue Bonds, 2003 Series, 3.00-5.00%	164,200,000	167,550,000
2005/2025	150,000,000	Transportation System Senior Revenue Bonds, 2005 Series, 4.00-5.00%	150,000,000	-
JUNIOR BONDS				
1993/2005	\$ 33,605,000	Transportation System Junior Revenue Bonds, 1993 Series, 5.00%	-	10,260,000
2002/2009	48,120,000	Transportation System Junior Revenue Bonds, 2002 Series, 4.375-5.00%	<u>46,365,000</u>	<u>47,260,000</u>
		Totals	953,265,000	861,710,000
		Less: current portion	<u>61,370,000</u>	<u>58,445,000</u>
		Long-term portion	<u>\$891,895,000</u>	<u>\$803,265,000</u>

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note I - Revenue Bonds Outstanding (Continued)

The Transportation System Revenue Bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the Trust Fund. Summary financial information for the Trust Fund was as follows at June 30,:

	<u>2006</u>	<u>2005</u>
<i>Condensed Balance Sheets</i>		
Assets:		
Current assets	\$ 172,744,932	\$ 149,132,178
Capital assets	1,010,161,302	992,110,189
Other assets	<u>79,930,955</u>	<u>84,393,778</u>
Total assets	<u>1,262,837,189</u>	<u>1,225,636,145</u>
Liabilities:		
Current liabilities	114,928,625	166,021,625
Noncurrent liabilities	<u>930,976,290</u>	<u>842,104,921</u>
Total liabilities	<u>1,045,904,915</u>	<u>1,008,126,546</u>
Net Assets:		
Invested in capital assets, Net of related debt	32,033,115	55,786,900
Unrestricted	44,063,523	33,106,704
Restricted	<u>140,835,636</u>	<u>128,615,995</u>
Total net assets	<u>\$ 216,932,274</u>	<u>\$ 217,509,599</u>
<i>Condensed Statements of Revenues, Expenses, and Changes in Net Assets</i>		
Operating revenues (pledged against bonds)	\$ 326,826,259	\$ 294,800,531
Other operating revenues	38,350,926	35,857,410
Depreciation expense	(192,045)	(192,045)
Other operating expenses	<u>(426,246,309)</u>	<u>(477,234,199)</u>
Operating loss	<u>(61,261,169)</u>	<u>(146,768,303)</u>
Nonoperating revenues (expenses):		
Investment income (pledged against bonds)	10,523,310	6,019,636
Other investment income (loss)	(730,388)	156,843
Interest expense	(37,346,668)	(37,958,755)
Transfer from State General Fund	<u>88,237,590</u>	<u>67,415,489</u>
Change in net assets	<u>(577,325)</u>	<u>(111,135,090)</u>
Beginning net assets	<u>217,509,599</u>	<u>328,644,689</u>
Ending net assets	<u>\$ 216,932,274</u>	<u>\$ 217,509,599</u>

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note I - Revenue Bonds Outstanding (Continued)

	<u>2006</u>	<u>2005</u>
<i>Condensed Statements of Cash Flows</i>		
Net cash provided by (used in):		
Operating activities	\$(78,699,189)	\$(149,899,502)
Noncapital financing activities	88,237,590	67,415,489
Capital and related financing activities	(174,401)	41,991,880
Investing activities	<u>(9,425,811)</u>	<u>41,244,554</u>
Net increase (decrease)	(61,811)	752,421
Beginning cash and cash equivalents	<u>2,502,870</u>	<u>1,750,449</u>
Ending cash and cash equivalents	<u>\$ 2,441,059</u>	<u>\$ 2,502,870</u>

The revenue bonds do not constitute a debt of the State or of any political subdivision thereof, or a pledge of the general taxing power or the faith and credit of the State of Delaware or of any such political subdivision.

The Authority had a total of \$75,219,525 and \$95,219,525 in authorized but unissued revenue bonds at June 30, 2006 and 2005, respectively, to fund a portion of the Department of Transportation Capital Improvement Program.

The annual requirement to amortize all revenue bonds payable as of June 30, 2006 was as follows:

<u>Year Ending June 30,</u>	<u>Principal Maturity</u>	<u>Interest Maturity</u>	<u>Total</u>
2007	\$ 61,370,000	\$ 45,534,197	\$ 106,904,197
2008	64,980,000	41,768,563	106,748,563
2009	68,820,000	38,419,575	107,239,575
2010	71,585,000	34,917,844	106,502,844
2011	60,065,000	31,613,545	91,678,545
2012-2016	285,355,000	114,066,547	399,421,547
2017-2021	221,130,000	52,766,128	273,896,128
2022-2026	<u>119,960,000</u>	<u>11,526,025</u>	<u>131,486,025</u>
Totals	<u>\$953,265,000</u>	<u>\$370,612,424</u>	<u>\$1,323,877,424</u>

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note I - Revenue Bonds Outstanding (Continued)

On October 20, 2004, the Trust Fund issued \$167,550,000 of Transportation System Senior Revenue Bonds, 2004 Series, of which \$67,425,000 was for an advance refunding of the following Transportation System Senior Revenue Bonds:

1997 Series	\$34,280,000
2000 Series	4,115,000
2001 Series	4,245,000
2002B Series	8,870,000
2003 Series	<u>15,915,000</u>
	<u>\$67,425,000</u>

The refunding was undertaken to reduce the total future debt service payments. The transaction resulted in an economic gain of \$3,305,552 and a reduction of \$4,462,624 in future debt service payments.

Note J - Debt Defeasance

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt had been issued and the proceeds had been used to purchase U.S. Government Securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and, therefore, not reported as a liability. As of June 30, 2006 and 2005, the amount of defeased debt outstanding amounted to \$146,485,000 and \$151,760,000, respectively.

Note K - Designated Net Assets

For operations, unrestricted net assets designated by management were as follows for the fiscal years ended June 30,:

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note K - Designated Net Assets (Continued)

	<u>2006</u>	<u>2005</u>
DTC Transit Funds		
Designated as working capital for operations are:	\$ 7,407,918	\$ 6,064,756
Designated as reserve for self insurance are:	3,943,277	2,716,942
Unexpended appropriations authorized by the State budget bills were carried forward as a designated net asset. For the years ended June 30, 2006 and 2005, the DTC Transit Fund expended authorized appropriations amounting to \$60,082,914 and \$56,297,116, respectively. The remaining totals of budgeted appropriations to be paid in future periods are:	5,758,370	5,777,107
Other Transportation Funds		
Authorized appropriations to fund State Highway Administration, planning, operating costs, and Expressways Operations/Toll Administration operations for the years ended June 30, 2006 and 2005 were \$134,776,608 and \$130,683,921, respectively. Unexpended appropriations have been designated for approved expenses and are classified as designated net assets in the amounts of:	\$ <u>2,194,952</u>	\$ <u>7,168,796</u>
Total designated net assets	<u>\$19,304,517</u>	<u>\$21,727,601</u>

Note L - Restricted Net Assets

Restricted net assets were as follows at June 30,:

	<u>2006</u>	<u>2005</u>
Pension Funds		
Amounts held in DTC pension fund	\$ 688,884	\$ 482,356
Debt Service Funds		
Amounts generated from operations required by the Trust Agreement to be provided to meet current principal and interest payments	85,195,257	79,472,718

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note L - Restricted Net Assets (Continued)

	<u>2006</u>	<u>2005</u>
Debt Reserve Funds		
Amounts generated from operations required by the Trust Agreement to be provided as a reserve for future principal and interest payments	\$ 47,092,470	\$ 40,881,296
Delaware State Infrastructure Bank		
Amounts required by cooperative agreement with the Federal Highway Administration to be held to provide loans for transportation projects	8,547,909	8,261,981
Highway Beautification Funds		
Amounts held in trust to be used for highway beautification	<u>22,533</u>	<u>14,785</u>
Total restricted net assets	<u>\$141,547,053</u>	<u>\$129,113,136</u>

Note M - DTC Union Contracts

Operators and maintenance personnel of the North District Fixed Route system are represented by the Amalgamated Transit Union AFL-CIO, Local 842. The term of the current Collective Bargaining Agreement covers the period starting March 1, 2002 through November 30, 2007.

Paratransit operators statewide and South District Fixed Route operators are also represented by the Amalgamated Transit Union AFL-CIO, Local 842, under a separate Collective Bargaining Agreement. The term of the current Collective Bargaining Agreement covers the period July 1, 2003 through June 30, 2008.

Certain administrative, operations, and maintenance personnel are represented by the Office and Professional Employee International Union, Local 32, AFL-CIO. The term of the Collective Bargaining Agreement is from January 1, 2002 through December 31, 2006.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note N - Retirement Plan

Essentially all full-time Department employees are covered under the State of Delaware Defined Benefit Pension Plan (the Plan), with the exception of DTC employees, who are covered under separate plans (see Note O). The Plan is contributory, and employees contribute 3% of the portion of their monthly compensation that exceeds \$6,000 per calendar year. Contributions by the Department are based on percentages of total employee compensation as specified by the Office of Pension and Investments, who administers the Plan.

In addition to the Plan contribution, the Department makes contributions to finance the costs of Post Retirement Increases (PRI) and Retiree Health Insurance (RHI). PRI are granted by the General Assembly to members retired under the State Employees' Plan. The funding mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund administered by the Pension Board. When the Legislature grants an ad hoc increase, the actuarial impact of the increase is funded over five years.

The following trend information for the current and preceding two years was as follows as of June 30,:

<u>Fiscal Year</u>	<u>Annual Retirement Expense</u>	<u>Pension Plan</u>	<u>Employer Contribution Rate</u>		
			<u>PRI</u>	<u>RHC</u>	<u>Total</u>
2006	\$9,893,490	6.12%	2.60%	6.30%	15.02%
2005	8,230,409	4.91%	2.43%	5.91%	13.25%
2004	6,834,932	4.20%	1.45%	5.91%	11.56%

The State of Delaware does not maintain the Plan information by agency, and therefore, the Department's portion of the Plan's net assets available for benefits, percentage of annual pension cost contributed, and the actuarial present value of vested and nonvested accumulated plan benefits is not readily determinable.

Detailed information concerning the State of Delaware "State Employees Pension Plan" is presented in its publicly available annual basic financial statements, which can be obtained by writing the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Blvd., Dover, DE 19904-2402.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note O - Defined Benefit Pension Plans

Plan Descriptions

DTC contributes to two single-employer defined benefit pension plans: the Delaware Transit Corporation Pension Plan, with participation limited to full-time, nonunion salaried employees; and the Contributory Pension Plan, for all full-time members of Local #842 Amalgamated Transit Union and Local #32 Office and Professional Employee International Union. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing or calling DTC at its Dover office.

Funding Policy and Annual Pension Cost

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan is as follows:

	<u>DTC Pension Plan</u>	<u>Contributory Pension Plan</u>
Contribution rates:		
Employer	**	5.00%
Participants	N/A	5.00%
Annual pension cost	\$631,860	\$542,133
Contributions made	\$628,299	\$748,661
Actuarial valuation date	7/01/05	1/04/06
Actuarial cost method	Frozen Initial Liability	Aggregate **
Remaining amortization period	20	16
Asset valuation method	Market	***
Actuarial assumptions:		
Investment rate of return	7.50%	7.00%
Projected salary increases	4.50%	4.00%

Note: * = Actuarially Determined and N/A = Not Applicable
 ** = This method does not identify and separately amortize unfunded actuarial liabilities.
 *** = Book value plus 20% of the difference between book and market value, but not less than 80% or greater than 90% of market value.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note O - Defined Benefit Pension Plans (Continued)

Funding Policy and Annual Pension Cost (Continued)

Three-Year Trend Information

	<u>Plan Year Ended</u>	<u>Contribution Made</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
DTC Pension Plan	06/30/2004	\$749,796	\$749,796	100.00%	\$ -
	06/30/2005	612,886	612,886	100.00%	-
	06/30/2006	631,860	631,680	100.00%	-
Contributory Plan	12/31/2003	548,215	913,947	59.98%	167,051
	12/31/2004	916,604	601,299	152.44%	482,356
	12/31/2005	748,661	542,133	137.59%	688,884

Schedules of Funding Progress

DTC Pension Plan

<u>Actual Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess (Deficit) of Assets Over AAL (a - b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess (Deficit) as a Percentage of Covered Payroll ((a - b)/c)</u>
07/01/2003	\$5,187,005	\$5,536,310	\$(349,305)	93.69%	\$8,120,967	(4.30)%
07/01/2004	6,450,349	6,874,823	(424,474)	93.83%	7,350,742	(5.77)%
07/01/2005	7,539,479	7,932,143	(392,664)	95.05%	8,019,950	(4.89)%

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note P - Commitments and Contingencies

Construction Commitments

The Department had contractual commitments of \$208,972,916 and \$240,866,310 for construction of various highway projects at June 30, 2006 and 2005, respectively. Current and future appropriations will fund these commitments as work is performed.

Litigation

DTC is involved in various legal actions arising in the normal course of business. In the opinion of management, such matters will not have a material effect upon the financial position of DTC.

Note Q - Claims and Judgments

Electronic Toll Collection

During fiscal year 1996, Expressways Operations/Toll Administration entered into a regional electronic toll collection system consortium (the Consortium). The Consortium includes an agreement among member jurisdictions to share in the potential revenues and costs associated with the construction, financing, and operations of an electronic toll collection customer service center (CSC). The CSC collected tolls and violation fees from motorists in each member jurisdiction and remitted to each jurisdiction their share of tolls collected based upon actual road usage. The Consortium also leased fiber optic transmission lines to the public, which was to generate rental income to the CSC. The rental income and violation fees were expected to exceed the costs associated with operating the CSC.

In order to fund operations, the Consortium issued \$150,000,000 in fixed rate and \$150,000,000 in variable rate bonds to be repaid in 2008. In the event that the CSC generated costs in excess of revenues during its planned ten-year operating term, each member jurisdiction was obligated to finance their share of this operating deficit under the terms of a True-Up Agreement that each member jurisdiction has signed. The Department is obligated for 4% or \$12,000,000. Each year the Consortium performed a True-Up Study that showed with each year a lessened ability of the CSC to pay the debt.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note Q - Claims and Judgments (Continued)

Electronic Toll Collection (Continued)

On March 25, 2003, the Department withdrew from the Consortium that was governing the E-ZPass operation jointly with three agencies from other states. As of that date, the Department began operating its E-ZPass system independent of the Consortium. Per the terms of the settlement agreement, the Trust Fund received approximately \$7.6 million during fiscal year 2003 to cover various transition costs. The New Jersey Turnpike Authority, acting as lead agency for the Consortium, also completed the remaining work on Delaware's portion of the fiber optic network at no cost to the Department. The value of this work was an additional \$1 million. These amounts were initially recorded as deferred revenue and vendor retainage payable and were recorded as income and expenses when incurred. For the years ended June 30, 2006 and 2005, amounts recognized in income related to E-ZPass transition costs were \$366,419 and \$2,665,572, respectively. Deferred revenues remaining at June 30, 2006 and 2005 were \$-0- and \$366,419, respectively.

As part of the separation agreement, the Department agreed to pay principal on the bonds for their share of the debt of \$12,000,000, which is due in March 2008. The discounted amounts of \$11,230,769 and \$11,325,229 appear as claims and judgments in the accompanying balance sheets at June 30, 2006 and 2005, respectively. Recognition of the adjustment to this liability increases net assets at June 30, 2006 by \$94,460 and reduces net assets at June 30, 2005 by \$241,297. To accumulate funds for future payment of this contingency, the Authority is earmarking funds within its operating budget.

Note R - Risk Management

The Department is exposed to various risks of loss related to workers' compensation, healthcare, automobile, and casualty claims. Except as noted below, the Department is a participant in the State of Delaware's Risk Management Program, which covers all claim settlements and judgments out of its General Fund. The Department pays premiums to the General Fund for this coverage.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note R - Risk Management (Continued)

Workers' Compensation Insurance

DTC maintains coverage for workers' compensation benefits. DTC manages the coverage through both the retention of risk and the purchase of commercial insurance. The payment of workers' compensation claims is processed through a third-party administrator.

For years prior to 2003, DTC established workers' compensation loss contingency reserves based upon insurance carriers' actuarial reviews. Benefit claims in an amount of \$100,000 or less per person, per coverage year are paid from the workers' compensation loss contingency reserve. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount, the insurance policy covers the excess.

For fiscal year 2003, DTC changed its coverage to a first dollar program. Also, all claims were subject to a \$5,000 deductible for the medical portion of a claim. All other expenses related to a claim were covered by the insurance carrier. DTC established an initial loss contingency reserve in 2003 of \$200,000 to cover the deductibles for estimated future medical claims.

Subsequent to fiscal year 2003, DTC changed its coverage and is insured through the State of Delaware. Under the State program, DTC pays a premium calculated as \$1.60 and \$7.48 per \$100 of payroll for each of the years ended June 30, 2006 and 2005, respectively. DTC is not responsible for any costs other than the premium paid, thus no loss contingency reserves are established.

Auto Insurance

DTC maintains auto insurance coverage through both the retention of risk and the purchase of commercial insurance. Auto loss contingency reserves that are based upon actuarial reviews were established by DTC.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note R - Risk Management (Continued)

Auto Insurance (Continued)

For years prior to 2003, DTC would establish auto loss contingency reserves based upon insurance carriers' actuarial reviews. Individual claims in an amount of \$100,000 or less per incident, per coverage year were paid from the auto loss contingency reserve. Once a specific claim exceeds \$100,000 or total claims for a given policy period exceed the maximum loss amount established by the insurance carrier, the insurance policy covers the excess.

For 2003 and subsequent years, DTC has established self-insured retention thresholds up to certain dollar amounts and purchased commercial policies for coverage amounts in excess of the self-insured retention thresholds. DTC established initial loss contingency reserves for each of the years based upon actuarial reviews considering the \$300,000 sovereign immunity cap pursuant to Title 2 of the Delaware Code, Subsection 1329.

	Initial Loss Contingency Reserve <u>Established</u>	Self-Insured Retention <u>Threshold</u>	Excess Commercial <u>Coverage</u>
2003	\$2,561,000	\$1,300,000	\$10,000,000
2004	2,666,763	1,300,000	6,000,000
2005	2,763,367	2,300,000	5,000,000
2006	2,858,258	2,300,000	5,000,000

The components of the remaining insurance loss contingency reserve were as follows at June 30,:

	<u>2006</u>	<u>2005</u>
Workers' compensation loss contingency reserve remaining for fiscal year 2003	\$ 87,885	\$ 192,316
Workers' compensation loss contingency reserve remaining for fiscal year 2002	103,509	259,298
Workers' compensation loss contingency reserve remaining for fiscal year 2001	11,216	16,190

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note R - Risk Management (Continued)

Auto Insurance (Continued)

	<u>2006</u>	<u>2005</u>
Workers' compensation loss contingency reserve remaining for fiscal year 2000	\$ 23,400	\$ -
Auto reserve remaining for fiscal year 2006	2,255,303	-
Auto reserve remaining for fiscal year 2005	1,327,301	2,185,994
Auto reserve remaining for fiscal year 2004	933,668	591,935
Auto reserve remaining for fiscal year 2003	598,300	445,467
Auto reserve remaining for fiscal year 2002	98,438	120,689
Auto reserve remaining for fiscal year 2001	-	425,343
Auto reserve remaining for fiscal year 2000	20,000	213,422
Auto reserve remaining for fiscal year 1999	-	207,780
	<u>\$5,459,020</u>	<u>\$4,658,434</u>

Changes in the balances of total claim liabilities during fiscal years 2006 and 2005 were as follows:

<u>Fiscal Year</u>	<u>Beginning Balance July 1</u>	<u>Current Year Estimated Claims and Changes in Estimates</u>	<u>Actual Claim Payments</u>	<u>Ending Balance June 30</u>
2005	\$4,887,281	\$2,092,728	\$(2,321,575)	\$4,658,434
2006	\$4,658,434	\$3,156,099	\$(2,355,513)	\$5,459,020

Note S - Operating Leases

The Department has several noncancellable operating leases, primarily for operation and maintenance facilities, which expire at various times through June 29, 2020. Those leases require the Department to pay for maintenance and liability insurance costs. Rental expenses were \$1,864,233 and \$662,790 for the years ended June 30, 2006 and 2005, respectively.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note S - Operating Leases (Continued)

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2006 are as follows:

2007	\$ 258,963
2008	234,070
2009	156,287
2010	152,082
2011	151,187
2012 - 2016	598,670
2017 - 2021	<u>7,200</u>
	<u>\$1,558,459</u>

DTC has an operating lease agreement for transit vehicle tires, which will expire on May 19, 2009. The lease agreement requires DTC to make monthly payments based on miles driven multiplied by a mileage rate as set forth in the agreement. The mileage rate is based on contract year and estimated annual vehicle miles. For the years ended June 30, 2006 and 2005, DTC incurred expenses related to this lease of \$132,200 and \$126,976, respectively.

During 2006, DTC leased office space for the period January 12, 2006 through June 15, 2006. Rental expense for that period was \$315,974.

Note T - Contributions From the State General Fund

The State of Delaware's General Assembly and the State of Delaware's Division of Revenue transferred the following amounts from the State's General Fund to the Department at June 30,:

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note T - Contributions From the State General Fund (Continued)

	<u>2006</u>	<u>2005</u>
Amounts transferred to the Revenue Fund:		
Division of Revenue, Motor Vehicle Dealer/ Lessor License and Document Fees	\$ 2,541,690	\$ 2,548,989
Amounts transferred to the Trust Fund:		
Supplemental appropriation from fiscal year Bond Bill	82,869,600	10,000,000
Amounts transferred to DTC:		
Supplemental appropriation from fiscal year Bond Bill	-	8,927,041
Amounts transferred to the Department:		
Supplemental appropriation from fiscal year Bond Bill	9,000,000	-
Division of Motor Vehicles	2,826,300	2,766,500
Port of Wilmington improvements and expansion	-	15,000,000
Green infrastructure program	-	22,100,000
Glenville disaster recovery	-	<u>15,000,000</u>
	<u>\$97,237,590</u>	<u>\$76,342,530</u>

Note U - Loss on Disposal of Facility

During 2005, DTC relocated one of its facilities. The relocation resulted in a loss on disposal in the amount of \$4,517,635.

Note V - Subsequent Event

Effective July 1, 2006, the Diamond State Port loan (See Note D) was restructured. Unpaid interest through January 1, 2007, in the amount of \$1,181,392, will be capitalized into the loan balance. The State paid \$10,000,000 towards the principal of the loan on behalf of the Diamond State Port Corporation in August 2006. The remaining principal amount due will be \$21,259,658. The interest rate on the restructured loan will remain at 4.6%. The loan is to be repaid in four semi-annual payments of \$500,000, commencing on March 31, 2007, and 40 semi-annual payments of \$808,798, commencing on March 31, 2009, with the final payment to be made on May 31, 2028.

**State of Delaware
Department of Transportation**

**Notes to Financial Statements (Continued)
June 30, 2006**

See Independent Auditors' Report

Note V - Subsequent Event (Continued)

The Diamond State Port Corporation will only be able to repay this loan with continued annual support from the general assembly. While funds have not been committed, it is the expectation of management that the required support will be appropriated each year.

Note W - Prior Period Adjustments

The accompanying financial statements for fiscal year 2005 have been restated to correct errors made related to the omission of certain accounts receivable, general obligation bonds payable, capital assets, depreciation expense and losses recognized on retirements of property and equipment.

The net effect of the restatements was to increase the change in net assets for the year ended June 30, 2005 by \$33,285,598 and to increase beginning net assets for effects on periods prior to 2005 by \$14,096,547.

In addition, certain reclassifications were made to the accompanying financial statements for fiscal year 2005. These reclassifications primarily related to restrictions on assets and net assets and the categorization of certain expenses. These reclassifications had no effect on changes in net assets for the year ended 2005.

Required Supplementary Information

**State of Delaware
Department of Transportation**

**Supplementary Information for Governments
That Use the Modified Approach for
Infrastructure Assets**

		<u>Structural Rating Numbers & Percentages for Bridges</u>					
		<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>BCR Condition Rating</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>
Good	6 - 9	1,048	76.3	1,029	75.1	1,012	74.5
Fair	5	243	17.7	256	18.6	259	19.0
Poor	1 - 4	83	6.0	86	6.3	89	6.5
Totals		<u>1,374</u>	<u>100.0</u>	<u>1,371</u>	<u>100.0</u>	<u>1,360</u>	<u>100.0</u>

		<u>Deck Rating Numbers & Percentages for Bridges</u>					
		<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>OPC Condition Rating</u>	<u>Square Feet</u>	<u>%</u>	<u>Square Feet</u>	<u>%</u>	<u>Square Feet</u>	<u>%</u>
Good	6 - 9	6,808,227	94.0	6,731,463	94.0	6,932,464	97.0
Fair	5	390,978	5.4	399,554	5.6	172,061	2.4
Poor	1 - 4	42,604	0.6	31,983	0.4	40,677	0.6
Totals		<u>7,241,809</u>	<u>100.0</u>	<u>7,163,000</u>	<u>100.0</u>	<u>7,145,202</u>	<u>100.0</u>

		<u>Centerline Mile Numbers & Percentages for Roadways</u>					
		<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>OPC Condition Rating</u>	<u>Center-line Mile</u>	<u>%</u>	<u>Center-line Mile</u>	<u>%</u>	<u>Center-line Mile</u>	<u>%</u>
Good	3.0 - 5.0	3,070	69.0	3,296	73.8	3,459	77.5
Fair	2.5 - 3.0	914	20.5	775	17.4	641	14.4
Poor	Below 2.5	469	10.5	393	8.8	364	8.1
Totals		<u>4,453</u>	<u>100.0</u>	<u>4,464</u>	<u>100.0</u>	<u>4,464</u>	<u>100.0</u>

Comparison of Estimated-to-Actual Maintenance / Preservation (in Thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Estimated	<u>\$135,991</u>	<u>\$138,517</u>	<u>\$122,662</u>	<u>\$129,180</u>	<u>\$ 97,341</u>
Actual	<u>\$211,347</u>	<u>\$311,397</u>	<u>\$133,765</u>	<u>\$146,352</u>	<u>\$126,540</u>

The condition of road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0 for poor pavement to 5 for pavement in excellent condition.

**State of Delaware
Department of Transportation**

**Supplementary Information for Governments
That Use the Modified Approach for
Infrastructure Assets (Continued)**

The condition of bridges is measured using the “Bridge Condition Rating” (BCR), which is based on the FHWA Coding Guide, “Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation’s Bridges.” The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in perfect condition. For these reporting purposes, substandard bridges were classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of 6 to 9. A 5 rating is considered fair. The information is taken from past “Bridge Inventory Status” reports.

As discussed in the MD&A, the State changed its policy for roadway condition from 75% good or better to 85% fair or better and maintained the policy for the bridges at 75% of its bridge systems at a good or better condition level. The policy change results in a \$79 million reduction of the extended costs of preservation and maintenance in 2006. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges.

Unaudited – See accompanying independent auditors’ report.

Additional Information

State of Delaware
Department of Transportation
Schedule of Revenue Bond Coverage
(Unaudited)
June 30, 2006
See Independent Auditors' Report

Oversight responsibility for the issuance of debt by the State and its authorities is centralized under the Secretary of Finance. The following table sets forth certain indebtedness of the Department. Further information for the Department may be found in the notes to financial statements, changes in long-term liabilities and bonds outstanding.

(in Thousands)

Fiscal Year	Gross Pledged Revenue	Debt Service Requirements			Coverage
		Principal	Interest	Total	
1997	\$ 240,006	\$ 26,945	\$ 40,119	\$ 67,064	3.58
1998	252,966	31,585	30,176	61,761	4.10
1999	268,650	33,300	32,718	66,018	4.07
2000	292,201	35,330	30,809	66,139	4.42
2001	293,026	35,315	37,537	72,852	4.02
2002	303,794	39,565	35,269	74,834	4.06
2003	302,754	41,490	44,957	86,447	3.50
2004	308,091	47,640	38,176	85,816	3.59
2005	300,820	53,920	39,370	93,290	3.22
2006	337,350	58,445	40,573	99,018	3.41